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Message Text

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17
ACTION EA-14

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02

COME-00 DODE-00 EB-11 FEA-02 FPC-01 H-03 INR-10

INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SPC-03 SS-20 STR-08 TRSE-00 PA-04 PRS-01

USIA-15 SAJ-01 NSCE-00 EUR-25 AGR-20 IO-14 DRC-01

/223 W

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R 060552Z MAR 74
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 9830
INFO USLO PEKING
AMEMBASSY TAIPEI
AMEMBASSY TOKYO

C O N F I D E N T I A L HONG KONG 2489

E.O. 11652: GDS
TAGS: ENRG ETRD CH
SUBJ: EFFECTS OF THE ENERGY CRISIS ON PRC FOREIGN TRADE

REF: HK 2291

SUMMARY
THE PRC IS AMONG THE FEW COUNTRIES SELF-SUFFICIENT IN PETROLEUM AND WITH SOME INCREASING POTENTIAL FOR EXPORT. HIGHER OIL PRICES HAVE ALREADY SIGNIFICANTLY INCREASED THE VALUE OF CHINA'S SMALL PETROLEUM EXPORTS, BUT COSTS OF VITAL PETROLEUM BASED RAW MATERIALS HAVE ALSO RISEN. SHORTAGES AND HIGHER COST FOR ARTIFICIAL FERTILIZERS, PETROCHEMICALS AND SYNTHETIC FIBERS COULD POSE PROBLEMS THIS YEAR. HIGHER IMPORT PRICES FOR PETROLEUM BASED PRODUCTS WILL DETRACT FROM ADDITIONAL EARNINGS FROM OIL EXPORTS, BUT IT IS TOO EARLY TO JUDGE WHETHER THIS WILL
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RESULT IN A NET LOSS OR GAIN FOR THE PRC. END SUMMARY.

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1. WHILE MOST OF THE WORLD SUFFERS FROM THE EFFECTS OF THE ENERGY CIRISIS, THE PRC IS AMONG THE FEW COUNTRIES SELF-SUFFICIENT IN PETROLEUM AND WITH SOME INCREASING POTENTIAL-ALTHOUGH SMALL-- FOR EXPORT. THE PRC WILL EXPERIENCE SOME PLUS AND MINUS ECONOMIC EFFECTS AS A RESULT OF THE WORLDWIDE ENERGY CRISIS. INCREASED OIL PRICES WILL GENERATE PLUS EFFECTS BUT PRC'S DEPENDENCE ON IMPORTED OIL-RELATED MATERIALS, WILL HAVE SOME ADVERSE ECO-NOMIC EFFECTS. SOME EARLY INDICATIONS OF THE NATURE OF THESE ECONOMIC EFFECTS HAVE ALREADY BECOME APPARENT.

2. TO THE EXTENT THAT RECENT INCREASES IN THE PRICE OF CRUDE OIL REMAIN PERMANENT , CHINA'S VAST UNTAPPED PETROLEUM RESOURCES HAVE BECOME A LARGER POTENTIAL SOURCE OF FOREIGN EXCHANGE EARNINGS THAN BEFORE. IN THE SHORT RUN, HIGHER PRICES HAVE ALREADY SIGNIFICANTLY INCREASED EARNINGS FROM CHINA'S PETROLEUM EXPORTS FOR 1974. WHILE STILL LIMITED IN AMOUNT (1.5 MILLION, MT), PRC OIL SALES TO JAPAN WILL BRING AT LEAST $95 MILLION THIS YEAR. THIS COMPARES WITH $32.5 MILLION FOR APPROXIMATELY 1 MILLION MT IN 1973 (REUTER, TOKYO, 2/20/74). SALES TO HONG KONG OF 300,000 MT OF PETROLEUM PRODUCTS (MOSTLY DIESEL OIL) ARE PRESENTLY ESTIMATED AT $20 MILLION. IN ADDITION, CHINA HAS PROMISED TO SUPPLY THAILAND WITH 125,000 TONS OF DIESAL FUEL AT AN AS YET UNDETERMINED PRICE (HK 1988).

3. BASED ON PREMIER CHOU EN-LAI'S PRODUCTION CLAIM OF 50 MILLION MT OF CRUDE OIL FOR 1973, WE ESTIMATE THAT CHINA WILL HAVE THREE TO FIVE MILLION MT AVAILABLE FOR EXPORT IN 1974. (ACCORDING TO PRESS REPORTS, THE CHINESE HAVE ALREADY SOUNDED OUT THE JAPANESE ON THE POSSIBILITY OF INCREASING THIS YEAR'S EXPORTS TO 3 MILLION TONS, JAPAN TIMES, 2/28/74). PROVIDED THAT ADEQUATE TRANSPORT FACILITIES CAN BE MADE AVAILABLE, SALE OF THIS AMOUNT COULD INCREASE PEKING'S 1974 TRADE EARNINGS FROM NON-COMMUNIST COUNTRIES BY $190-315 MILLION. HONG KONG NEWSPAPERS HAVE REPORTED THAT FUEL OIL WILL BE SOLD ON AL ARGE SCALE AT THIS SPRING'S CANTON TRADE FAIR
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(HK STANDARD, 3/4/74) AND IT IS NOT UNREASIONABLE TO EXPECT ADDITIONAL OIL SALES BY CHINA THIS YEAR. THESE INCREASED EARNINGS FROM PETROLEUM SALES ARE IMPORTANT SINCE THEY WILL HELP PAY FOR HIGHER PROCED PETROLEUM-BASED RAW MATERIALS WHICH THE PRC MUST BUY ABROAD.

4. SHORTAGES OF SUPPLY AND HIGHER COST FOR SUCH RAW MATERIALS COULD POSE PROBLEMS FOR THE PRC. OF IMMEDIATE

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IMPORTANCE ARE SUPPLIES OF CHEMICAL FERTILIZERS. FOR JAPAN, CHINA'S PRINCIPAL SUPPLIER, AN IMPROVED PRODUCTION SITUATION WILL APPARENTLY ALLOW FULL DELIVERIES BY JULY (ONLY ONE MONTH BEHING SCHEDULE), BUT AT PRICES REFLECTING INCREASED JAPANESE PRODUCTION COSTS. RECENTLY CONCLUDED SINO-JAPANESE FERTILIZER NEGOTIATIONS IN PEKING REPORTEDLY ENCOUNTERED DIFFICULTIES OVER JAPANESE REQUESTS FOR A 30 PER CENT PRICE INCREASE FOR JANUARY- MARCH AND A FURTHER INCREASE FOR SECOND QUARTER DELIVERIES. BASED ON FIRST-HALF 1973 IMPORTS ($71 MILLION), THIS WOULD MEAN A PRICE INCREASE OF AT LEAST $21 MILLION BY JUNE 1974. SUPPLY AND PRICE OF FERTILIZER FROM SUPPLIERS IN WESTERN EUROPE WILL ALSO BE AFFFECTED BY PETROLEUM SHORTAGES. THE CHINESE HAVE ALREADY COMPLAINED TO JAPNA AND MAY FEAR THAT LATE DELIVERIES FROM ALL SUPPLIERS WILL AFFECT AGRICULTURAL PRODUCTION.

5. IN ADDITION TO FERTILIZERS, SHORTAGES OF PETRO-CHEMICAL AND SYNTHETIC FIBERS MAY ALSO AFFECT SOME SECTORS OF CHINESE INDUSTRY. AS AN INDICATION THAT SUCH SHORTAGES ARE EXPECTED, PEKING HAS REPORTEDLY OFFERED TO EXCHANGE CRUDE OIL WITH JAPANESE FIRMS IN RETURN FOR SUPPLY OF FIBERS AND PETROCHEMICALS. ACCORDING TO PRESS REPORTS, THE CHINESE HOPE TO OBTAIN 100,000 TONS OF SYNTHETIC RESIN, VINYL CHLORIDE, POLYETHYLENE AND POLYPROPYLENE AND 40,000 TONS OF SYNTHETIC FIBER IN THIS MANNER FROM JAPAN (AFP, TOKYO, 3/2/74). SHORTAGES AND PRICE INCREASED WILL ALSO AFFECT CHINESE IMPORTS FROM IMPORTANT SUPPLIERS IN WESTERN EUROPE. FOR THE FIRST ELEVEN MONTHS OF 1973, PRC CHEMICAL IMPORTS FROM JAPAN, THE UK AND WEST GERMANY ALONE TOTALED AN ESTIMATED $180 MILLION AND THE COST OF SUCH IMPORTS CAN BE EXPECTED TO INCREASE IN 1974. OUT OF DEFERENCE TO CHINA, SOME CONFIDENTIAL

FOREIGN COMPANIES WILL, NO DOUBT, MAKE SUPPLIES OF CHEMICALS AND FERTILIZERS AVAILABLE, BUT AT HIGHER PRICES. WITH THESE AND ITS OWN DOMESTIC PRODUCTION, THE PRC WILL PROBABLY BE ABLE TO MEET ITS BASIC REQUIREMENTS AT ABOUT 1973 LEVELS, BUT WHERE SHORTAGES DEVELOP, THEY WILL CURTAIL GROWTH.

6. HIGHER IMPORT PRICES FOR PETROLEUM BASED PRODUCTS WILL DETRACT FROM THE ADDITIONAL EARNINGS FROM OIL EXPORTS BUT IT IS TOO EARLY TO JUDGE WHETHER THIS WILL RESULT IN A NET LOSS OR GAIN FOR THE PRC. SUCH A NET LOSS OR GAIN COULD AFFECT THE OVERALL LEVEL OF PRC IMPORTS AND THUS THE RATE OF CHINA'S GROWTH IN AFFECTED ECONOMIC SECTORS.
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